

PROJECT INFORMATION DOCUMENT (PID) CONCEPT STAGE

Report No.: PIDC567

Project Name	Philippine Rural Development Program (P132317)
Region	EAST ASIA AND PACIFIC
Country	Philippines
Sector(s)	General agriculture, fishing and forestry sector (50%), Rural and Inter-Urban Roads and Highways (40%), Irrigation and drainage (10%)
Lending Instrument	Specific Investment Loan
Project ID	P132317
Borrower(s)	Department of Finance
Implementing Agency	Department of Agriculture
Environmental Category	B-Partial Assessment
Date PID Prepared	15-Aug-2012
Estimated Date of Appraisal Completion	28-Jan-2013
Estimated Date of Board Approval	30-Jul-2013
Concept Review Decision	Track II - The review did authorize the preparation to continue

I. Introduction and Context

Country Context

The Government of the Philippines is seeking a Loan from the World Bank, to support the financing of the Philippine Rural Development Program (PRDP). The proposed program aims to tackle a number of key constraints to the development of the agriculture and fisheries sector, which have been adversely impacting the growth of the rural economy and of rural incomes. Access to more land in any significant manner is unlikely, as farming is already encroaching on forest lands; and there is growing competition for water resources.

Consequently, the sector will need to produce more, from less land and water, and improving productivity will be critical for ensuring food security. Key areas which need attention while addressing this challenge include, not only an increase in public and private investments in rural areas, but more attention to critical aspects such as rural infrastructure, adaptation of technology and agricultural research, new and innovative ways of disseminating results (extension), and human resource development. To move on this agenda, addressing institutional issues will be at the core; and, the private sector which has so far not been able to play the role which is necessary to help drive growth in the rural economy, will need to be more actively engaged, often as a partner of the Government, in helping realize the potentials of the sector to contribute to overall growth.

The PRDP will build on the design and experiences of the ongoing Bank-assisted Second Mindanao Rural Development Project (MRDP2), which has been effectively providing agricultural- and fisheries-related infrastructure and entrepreneurial assistance to farming and fishing communities through LGUs in Mindanao. As planning mechanisms under MRDP2 have increasingly developed and integrated community-based approaches with strategic core programs of the Department of Agriculture (DA), the opportunities and recognition of a need for a more programmatic, area-based approach to supporting the sector have emerged. This has been underpinned by significant devolution, budgetary and planning reforms in the DA, which promote partnering with LGUs and multi-stakeholder participation at the local levels in the design of programs. Building on the inroads made by the DA on operationalizing an effective partnership framework between the DA and the LGUs, the proposed PRDP will assist in further enhancing DA's implementation of its national sector plan by integrating private sector involvement and other meso-level interventions in order to enable farmers and fishers who have the potential to move up from producing for household food security to producing marketable surpluses.

The Philippines is a lower middle-income country with a population of 92 million, of whom about 26 percent are classified as poor. Of these, 70% live in rural areas. Although the country's economy has grown by an average of 4.9 percent from 2000 to 2009, the incidence of poverty has actually stagnated or has even increased in magnitude during that same period, suggesting that growth has not been sufficiently inclusive. Inequality also varies substantially across regions of the country and particularly between urban and rural areas.

Despite growing urbanization, the population of the Philippines is still predominantly rural (51%). Moreover, the contribution of the collective agribusiness sector accounts for 35% of the economy and about 50% of the labor force. However, agriculture and fisheries, which have been the major source of employment and livelihood in the rural areas, have been characterized for many years by low productivity, low producer incomes, low levels of employment, lack of food security, weak agricultural competitiveness, and an overall high level of poverty among farmer and fisher households.

In reality, the performance of the agriculture sector has been mixed. On one hand, sector growth accelerated after 2001, following a period of protracted stagnation: real agriculture value-added growth increased from an average of 1.6% per annum during 1980-2000 to 3.9% over 2000-07, above or on a par with sector growth rates in comparator countries in the region. Much of that growth increase reflects higher sector productivity growth, which picked-up in the latter period, both in terms of land and labor productivity. These developments point toward a sector with considerable potential, even if it cannot be the key driver of overall growth, but in having the potential to contribute to sound structural transformation of the Philippine economy. However, the Philippine farm sector's competitiveness has been eroding. The share of agricultural gross value added that is exported, declined from an average of 44% in the 1970s to 15% in 2008, while imports rose from 12% of agriculture value-added, to 27%. Indicators of revealed comparative advantage have also been declining over the past three decades for agriculture as a whole, and particularly for traditional exports, such as coconut and sugar. Moreover, even though labor productivity increased in the last decade, several studies show that total factor productivity growth in the sector has been declining.

While numerous studies have pointed to inappropriate government strategies, policies and resource allocations, reforms are only now beginning to take hold. Key issues have been, (i) production has

been emphasized with inadequate attention to increasing access to markets, and in improving farm incomes & food supplies, (ii) a policy of rice self-sufficiency has been relentlessly pursued, at the expense of developing other commodities with good potential to be competitively produced and marketed; (iii) the strategic network of infrastructure needed to support commodity value chains has been neglected, and (iv) allocation of public resources has been over-centralized and oriented towards production support for traditional staples, rather than based on providing key functions and services, and supporting more competitive value chains.

Looking to the future, the issues and challenges for the country point to the need for: i) reorienting the focus from self-sufficiency to food security; ii) widening the scope of attention from the production system to the entire value chain; iii) shifting from targeting production levels to realistic performance indicators; iv) moving from centralized planning and decision-making to a well-coordinated decentralized and devolved agricultural support system, and vi) shifting away from commodity-based to function-based budgeting. Importantly, many of these reforms have already been adopted under the current Aquino Administration, and are embodied in the Philippine Development Plan (PDP) for 2011-2016.

Sectoral and Institutional Context

From both a sectoral and institutional perspective, much has changed under the Aquino administration in the orientation and management of the Department of Agriculture that provides a basis for a more programmatic engagement by the Bank. Under the Philippine Development Plan, the Agri-Pinoy serves as the overall strategic framework for the development of the sector and advances the principles of inclusive growth, natural resource management and local development. Agri-Pinoy also includes the following innovative strategies: (i) institutionalizing regionally-based, spatial planning in a manner that ensures broad-based participation and inclusive development supporting all-sized producers; (ii) a more systems approach orientation in both planning and resource allocation (i.e., from “farm-to-table” and “ridge-to-reef”); (iii) providing the critical infrastructure needed by priority value chains; and (iv) building a more resilient production base to the vagaries of the global market and effects of climate change (“climate-smart agriculture”). Complementing this latter strategy, the National Climate Change Action Plan (NCCAP) also highlights the priority to be given to the rural sector in pursuing climate adaptation measures.

Apart from the above innovations in approach and planning, there have been significant reforms in the business processes of the DA that provide the enabling implementation environment. Previously, the DA followed “top-down” modalities, with little participation from LGUs or stakeholders in planning or influence over how DA programs were implemented. Despite there being regional plans prepared by RFUs, these were often not followed, and supported with adequate financing. Rather, interventions were determined by how funds were provided from commodity programs to support largely supply-driven interventions (eg., input subsidies such as fertilizers and seeds). Integration between programs was often lacking. This was a major factor contributing to the unsuccessful implementation of the Bank-assisted Diversified Farm Income and Market Development Project (DFIMDP), where commitments to reform were promised, but not implemented. By contrast, the process is already underway in the DA for integrating strategic national plans with local (regional) plans and programs, together with agreements on cost-sharing arrangements with LGUs. An Operations Manual (involving aspects related to technical design standards, economic analysis, fiduciary and safeguards aspects, monitoring, etc.) gleaned from the best practices of the MRDP in engaging with LGUs for implementing priority infrastructure subprojects for supporting agricultural and fisheries development has been developed and is now

being implemented across all regular programs of the DA. Moreover, budgets are now downloaded by DBM directly to RFUs in accordance with local, area-based plans developed in collaboration with LGUs and local stakeholders.

In order to operationalize Agri-Pinoy principles and strategies for the sector, the DA has formulated Agriculture and Fishery Modernization Plans (AFMPs). The proposed PRDP will then be the instrument of the DA to roll out a nationwide program of integrated investments on support services and infrastructure to operationalize the AFMP at the local (regional) level. A central thrust of the proposed programmatic approach to rural development, therefore, would be for the DA to be able to enjoin LGUs and other development stakeholders to effectively implement the AFMPs for the attainment of national food security targets and in improving agricultural and fisheries productivity and rural incomes.

Relationship to CAS

The proposed operation represents a major engagement on the part of the Bank aimed at promoting growth in the rural economy, and is in line with the CAS 2010-2012 strategic objectives of (i) improving the investment climate, especially the enabling environment to promote competitiveness, productivity and employment; (ii) better public service delivery, particularly basic service delivery in poor areas; (iii) reduced vulnerabilities through disaster risk reduction and climate change adaptation; and (iv) improving local governance through effective decentralization, and consequently, strengthening LGU performance for more effective frontline service delivery.

In terms of the CAS result outcomes, the proposed operation will support public service delivery improvements at the local level, by financing institutional development activities area-based and community-based approaches. With respect to reducing vulnerabilities, risk-reduction strategies and adaptation measures will be mainstreamed into the regional AFMPs and LGU business plans.

II. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)

PRDP aims to increase farm and fishery productivity and incomes in the targeted program areas.

This will be done by improving access to a strategic network of infrastructure, market information and support services and increasing the value of producers' market surplus, within priority value chains.

Key Results (From PCN)

1. The value of marketed outputs are increased by 30% in nominal terms in the program areas.
2. Real farm and fishery household incomes, including on & off-farm, are increased by 10% in the program areas.
3. The numbers of farmers and fisherfolk with improved access to technologies and information are increased by 20% in the program area (i.e., in regard to weather, market prices, quality, packaging requirement etc), and
4. Increase in agricultural and fishery productivity in the program area.

III. Preliminary Description

Concept Description

The proposed PRDP would build on the experiences and approach developed over the past decade from the DA's implementation of two Mindanao Rural Development projects (MRDP1 & MRDP2). The approach, which has evolved over time, has supported LGUs in Mindanao to build their institutional capacity and provide infrastructure and livelihood subprojects supporting agricultural development. Inherent in the approach, has been support for the decentralization goals of Government, and a strong element of community-based approaches to ensure support tailored to the needs of LGUs and local producers.

Recognition of the merits of the decentralized approach to providing agriculture and fisheries support has grown in the DA, with LGUs being assisted to design and deliver subprojects supportive to addressing constraints faced by the farming and fishing communities. However, under the PRDP the objective goes beyond decentralization. The PRDP will be looking at issues and constraints related to securing rural growth, increasing sector productivity and addressing food security issues beyond the household level. PRDP then will help assist in the modernization of the agriculture and fisheries sector, which would necessarily include support for diversification of rural economic activities. Underpinning this new approach is building a stronger partnership between the DA (at the national and regional levels), and the various development stakeholders at the local level (eg., LGUs, farmers and fishers, private sector, academe, etc.) in investing in priority commodity value chains. Beginning 2012, all RFUs are required to develop their regional 5-year "Agriculture and Fishery Modernization Plans (AFMPs)" that identify how regional plans will contribute to achieving national AFMP goals. The process, in turn, requires that Regional Field Units (RFUs) employ a value-chain approach and incorporate climate change adaptation in the formulation and implementation of the regional AFMPs. This would then require the DA RFUs to partner with LGUs and other development stakeholders to be able to effectively implement the regional AFMPs which would be supporting the development of priority value chains.

Based on the institutional reforms and innovations being pursued by the DA, along with a growing consensus as to the merits of the approach that the DA has developed and implemented under MRDP2, DA Management has committed to "rolling-out" a national program on rural development. The program would have at its core the goals of improving food security and productivity of the sector, and development of a more market-oriented and resilient agriculture and fishery sector. The proposed PRDP would reinforce the key principle of ensuring the active engagement of all key stakeholders at the local level; representing the DA, LGUs, Private Sector, Civil Society and the communities, in the process of preparing and financing local, area-based plans. Importantly also, the program will look to this partnership of stakeholders to provide an open and transparent process for monitoring the delivery of programs, and the overall evaluation of implementation. Upfront, institutional and stakeholder assessments (ISAs) will help identify the key stakeholders, their perspectives on the key issues which need tackling, and actions necessary for driving growth in agriculture and supporting the value chain. Accordingly, it is proposed that PRDP would provide the framework for Bank engagement in supporting this program across all 16 regions of the country.

Provincial Local Government Units (LGUs) would be supported in building their capacities to identify and invest in infrastructure and support services needed to underpin priority value chains and develop a more market-oriented agriculture and fishery sector in their areas. Complementing this, community entrepreneurial activities would be supported to help small farmers and fishers raise incomes through better linkages and access to markets. In reality, the approach has already

been pilot tested and adopted in those Regions/LGUs implementing the ongoing Second Mindanao Rural Development Project (MRDP2). However, under the PRDP, the basis for the investments to be financed would be the regional and provincial AFMPs, rather than just the barangay development plans (BDPs), in order to ensure better congruence in the sector investments being financed at the local levels with that of fulfilling the national AFMP targets. In addition, a strong orientation for a value chain approach and focus on climate resiliency for all PRDP interventions would be followed. On the latter, the determination of priority value chains would be enhanced through the determination of ranking of areas (provinces and municipalities) based on a vulnerability and suitability assessment (VSA) which takes into consideration commodity suitability and vulnerability factors such as climate risks .

A change in emphasis would be in regard to the Community Fund for Agricultural Development (CFAD) component under MRDP2. Whereas CFAD was originally designed to support community “livelihood” activities, the new focus would be more on building and supporting ‘agricultural and fisheries-based entrepreneurial” livelihood activities, in keeping with DAs strategic goals of raising productivity through a value chain approach. This would include support, where appropriate, for natural resource management (NRM) activities e.g., in connection with community fishery subprojects. This integration of NRM with “community entrepreneurial” activities, rather than as stand-alone activities, has evolved as one of the lessons from MRDP2. There will also be a greater focus in ensuring a more systematic provision of technology and market support services for all livelihood activities to be financed under PRDP.

The proposed PRDP would provide a loan of US\$ 500million and a grant of US\$ 7 million from the Global Environment Fund (GEF) . As discussed above, it would be based on the operational mechanisms and approach under the ongoing MRDP2 project, but with more emphasis given to linking national priorities for the agriculture sector with local (regional and LGU) plans and investments. It is seen as a vehicle for providing strategic infrastructure and support services that numerous studies have shown as important in order to enhance the country’s agricultural productivity and food security. The PRDP would have four components as summarized below: Component 1. Investments for AFMP Planning at the Local and National levels (I-PLAN) - (estd. US\$26 million equiv. from loan & GEF-grant US\$1.4 million equiv.)

This component would focus on strengthening the DA’s planning and budget execution processes for supporting AFMP implementation at the regional and provincial levels. Support by way of technical assistance, consultants, training and workshops would be provided to assist in mainstreaming the Department of Agriculture’s AFMP Planning Framework and in realigning budget processes, responsibilities and accountabilities to ensure the principles embodied in the AFMP are fully implemented and institutionalized. Support would build on the considerable work already done by the Government to develop the AFMP planning framework and processes, but with further attention given to refining the process by which Regional AFMPs more explicitly describe and rationalize: a) which commodity value chains are to be prioritized and supported; b) which disaster and climate risk factors to consider; c) the adequate levels and nature of public and private sector investments needed; d) the critical technical support services needed from public and private technical service providers and how these can be tapped and provided to LGUs and producers; and d) how the said regional AFMP can help contribute to achieving national AFMP goals. Some realignment of budget programming and execution processes within the DA would also be needed to further divest authority and accountability for AFMP implementation and budget execution to the RFUs. While recent DBM reforms now enable the downloading of budgets directly to RFUs, the

authority to utilize the budget is still not fully devolved to the RFUs, particularly in the case of the national commodity programs. Additionally, in keeping with the AFMP principle by which the DA plans to mainstream the implementation of its programs at the local level through partnerships and cost-sharing with LGUs, the project would also support the development of institutional mechanisms and processes within DA for it to administer the co-financing and funds flow arrangements with their partner LGUs.

Support would be provided to refine the current DA Planning Guidelines for preparing the AFMP, as well as the Harmonized Operations Manual prepared under MRDP2 in line with the AFMP process, and to mainstream these as the modus operandi for all DA programs implemented at the regional level. Whereas under MRDP2, DA RFU support for planning processes was provided at the Municipal and Barangay levels, under the PRDP, the focus of support and AFMP integration would be at the Provincial level, where there is more opportunities for doing a value chain approach and economies of scale. Hence, support for strengthening the regional and provincial planning processes would incorporate strategic thrusts such as: i) convergence on integrated ‘ridge-to reef’ planning involving multiple agencies; ii) planning techniques incorporating disaster risk reduction, climate change adaptation and participatory resource assessments; and iii) development of regional Value Chain Roadmaps, including LGU clusters to provide economies of scale for particular commodities, that would provide inputs to the selection and prioritization of investments to be supported under this program.

Component 2. Intensified Building Up of Infrastructure and Logistics for Development (I-BUILD) (est. US\$350 million). This component would support a flexible menu of eligible local infrastructure, identified as critical in supporting the priority commodity value chains in the regional AFMPs. It would be implemented through the construction and rehabilitation of Value Chain Infrastructure Support, as well as through the provision of technical assistance for improving the effectiveness and sustainability of such infrastructure investments.

Critical infrastructure, identified through the local (Regional and Provincial) AFMPs, would be provided to strengthen the value chain and provide the enabling environment to improve the competitiveness for agricultural and fishery products. The menu of eligible infrastructural interventions would include for example; access roads and bridges, tire tracks, small scale water supply, water collection and storage systems, irrigation systems, shallow tube wells, market collection centers, post-harvest facilities, fish landings, and other fisheries-related infrastructure and facilities. Cost sharing with LGUs would be 90% from the DA and 10% from the LGUs.

Included under this component would be technical assistance and training to partner LGUs, as needed, to develop and support Public-Private Partnerships (PPPs) with agro-industries, producer federations etc., in the provision of public infrastructure investments. This component would also support technical assistance for the development of approaches and technical specifications, as appropriate, for incorporating disaster and climate risk factors in the design of infrastructure.

Component 3. Investments for Rural Enterprises and Agricultural and Fisheries Productivity (I-REAP) (est. US\$ 100 million equiv. from loan and US\$5.6 million from GEF grant). This component would provide the development, implementation and sustainability of agricultural, livestock or fishery-based livelihood and entrepreneurial subprojects which are within the priority value chains being supported under the regional and provincial AFMPs. The financing for this would be done through the provision of a matching grant scheme between the DA and the

provincial LGUs, which has been earlier been proven as successful under MRDP in providing adequate incentives for LGUs to actively participate and partner with DA on enterprise development. Producer groups would be assisted through block grants to be administered by the Provincial LGUs to develop viable agricultural or fishery-related enterprises. This would build on the earlier experience gained under MRDP in enterprise development. Particular emphasis would be given to supporting the value chain and the linking of farmers and fishery producers with processors and markets. Eligibility criteria for producer groups would be those which would have the capacity to produce marketable surplus. Included in the menu of activities to be supported would be investments supportive of climate change adaptation, such as crop diversification and other strategies that will mitigate climate and weather impacts on production, as well as on household incomes and food security. Natural resource management investments, such as mangrove planting and or stabilization of hillsides through tree plantings would be integrated into community enterprise programs as appropriate, to help ensure the sustainability of investments, for which the GEF grant resources would be supporting.

The enhanced feature under PRDP would be to ensure that the supporting mechanisms for the provision of technical support services for improving productivity, climate resiliency, market linkages and entrepreneurship skills among participating producer groups are institutionalized within the DA RFU's technical delivery support mechanism to LGUs in order to ensure better profitability and sustainability of the livelihood and enterprises to be supported under PRDP. As such, training, information sharing and facilitation designed to provide farmers and fishers with access to information and contacts, ranging from technology to market requirements and risk management, will be provided. A range of modalities would be supported to assist producers and agri-business entrepreneurs in accessing the information and technologies needed for them to develop and sustain viable enterprises. Support would be tailored to requirements of the types of enterprise being assisted to enhance enterprise productivity, reduced vulnerability to weather and market shocks, and/or be more competitive and adept in marketing their produce. The menu of support would draw upon best practice and experiences gained under previous multilateral and bilateral assistance projects, as well as those developed by NGOs, State Universities, Producer & Commodity Federations and Research Agencies. Among the modalities already well established in the Philippines are; (i) on-farm participatory technology demonstrations, (ii) Farmer Field and Climate Schools, (iii) Field days & Facilitated Marketing arrangements with buyers & processors, (iv) the Farmer Contact Center or other methods of providing weather, market and technology information, and (v) specialized topics, business training and producer group formation. Provision of these information services would be arranged or contracted as necessary by RFUs and LGUs from a range of service providers, including State Universities, Research Institutions, Producer Federations and NGOs as appropriate. In addition, the PRDP will support the adoption, replication and scaling up of smart agriculture technologies such as those being developed under the GEF-PhilCCAP project, as well as knowledge partnerships (e.g., for natural resource management, or with the International Rice Research Institute (IRRI), and the DOST, e.g., building on studies relating to "Precision Agriculture" designed to link climate and weather data to provide a real time basis for timely and informed production and marketing decisions by farmers and fish producers. Support under PRDP for these activities would be provided through training, workshops and technical assistance, both to RFUs in areas covered by the PRDP, as well as to LGUs participating in the program.

Component 4. Implementation Support (I-Support) (est. US\$ 24M). Management and implementation support would build on the effective mechanisms operating under MRDP2.

However, since PRDP would encompass a much larger geographical area, separate but similar PSOs would need to be established. The location of the PSOs would be based on logistical factors, but it is envisaged that in addition to the PSO for Mindanao, additional PSOs would be established for the Visayas and for Luzon. In keeping with the AFMP framework, and the central role of RFUs in managing regional programs, the functions of the PSOs would be primarily to support clusters of RFUs in the implementation of the PRDP. Based on experiences under MRDP2, some RFUs will be more advanced and rapidly assume most functions, including M&E, while others will take much longer to achieve the necessary level of management and capacity. The functions and demands on the PSOs, will therefore be quite variable according to region and LGU capacity. The M&E system will be backed up by information technology applications piloted under MRDP2, such as the use of geotagging, a GPS technology for tracking and supervising subprojects particularly those located in difficult-to-access areas. Project management will also include risk monitoring and assessment as part of regular M&E functions.

IV. Safeguard Policies that might apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
Environmental Assessment OP/BP 4.01	x		
Natural Habitats OP/BP 4.04	x		
Forests OP/BP 4.36		x	
Pest Management OP 4.09	x		
Physical Cultural Resources OP/BP 4.11		x	
Indigenous Peoples OP/BP 4.10	x		
Involuntary Resettlement OP/BP 4.12	x		
Safety of Dams OP/BP 4.37	x		
Projects on International Waterways OP/BP 7.50		x	
Projects in Disputed Areas OP/BP 7.60		x	

V. Tentative financing

Financing Source	Amount
BORROWER/RECIPIENT	120.00
International Bank for Reconstruction and Develo	500.00
Global Environment Facility (GEF)	7.00
Total	627.00

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